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THE CONFERENCE BOARD

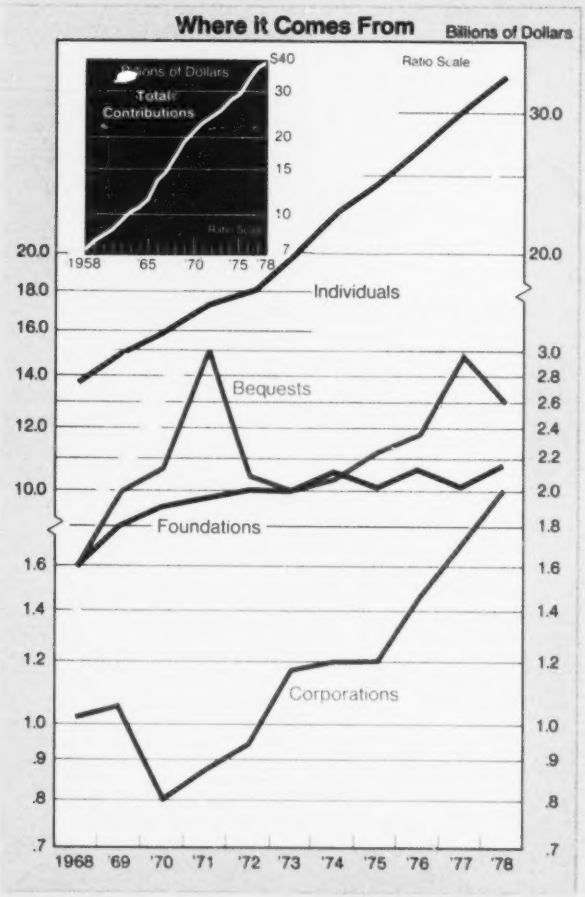
U.S. Philanthropy

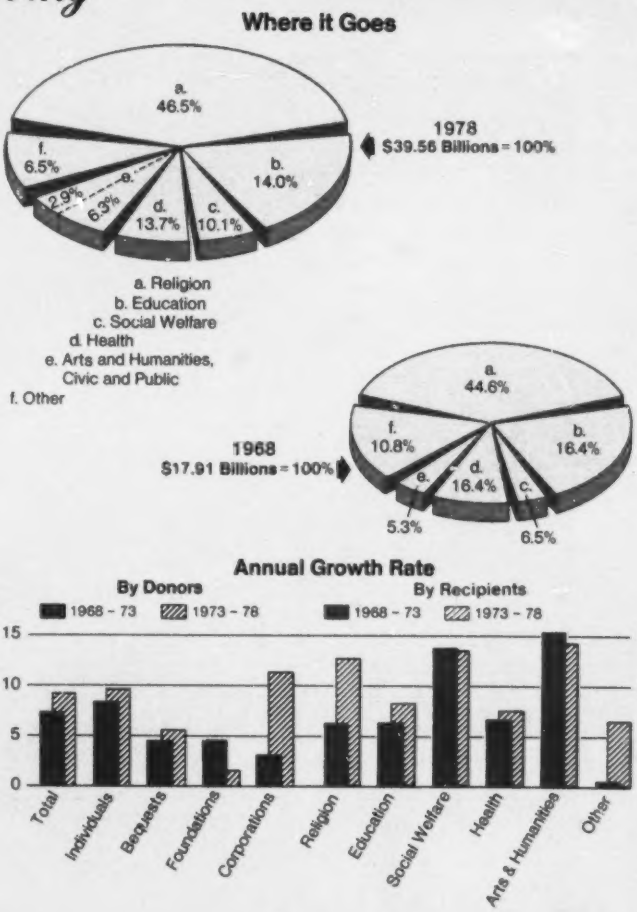
Economic Road Maps
Nos. 1870 - 1871

January, 1980

It all started with Benjamin Franklin who, among his many other accomplishments, is credited with being instrumental in the founding of the first public library and volunteer fire department. The tradition took root: The propensity of Americans to involve themselves in a great variety of causes and support them financially, as well as with time and effort, is well-known. Major social movements in this country originated in such voluntary cooperative efforts. The magnitude of total giving cannot be fully documented, but the American Association of Fund-Raising Counsel (AAFRC) estimates total charitable contributions from all sources at $39.6 billion in 1978. The value of unpaid work by volunteers has been estimated to equal the cash contributions.

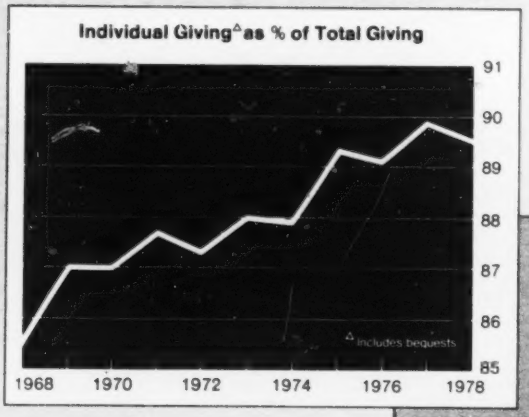
Total Giving

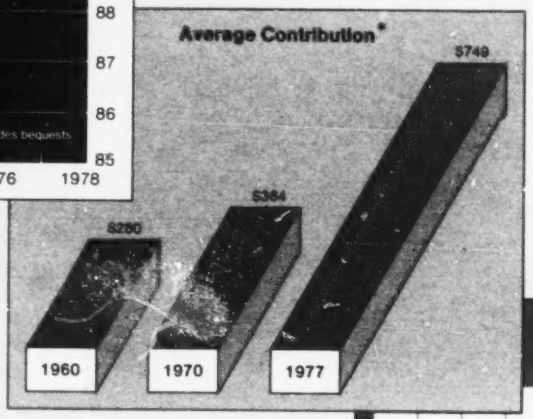


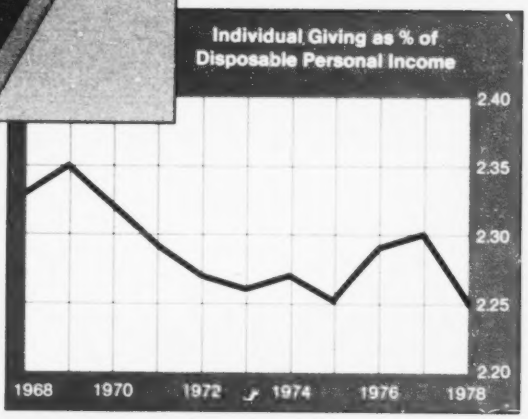


The role of private philanthropy has changed greatly over the years. We have seen government at all levels assuming growing responsibility for the cost of higher education, health care, and assistance to the poor and the aged—areas in which voluntary support has traditionally been heavily involved. For instance, the proportion of public funds in total national health expenditures rose from 20% to 42% between 1940 and 1977. Giving to religious organizations remains by far the largest element in voluntary giving, as they are the only recipients financed exclusively by private donations. In 1978, some $18½ billion were contributed to religious causes; health and education received about $5½ billion each, and the arts more than $2½ billion. Giving to the arts is the fastest

Individuals

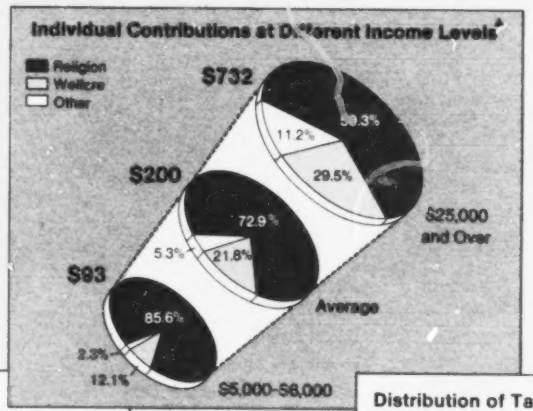






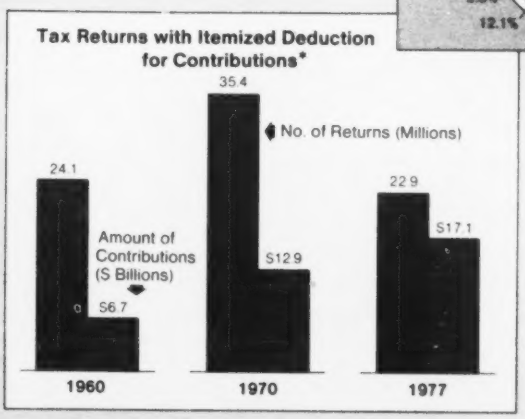
growing category, having more than doubled in the past five years.

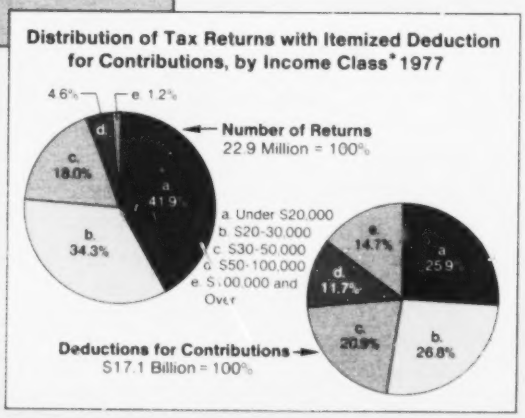
Individuals gave $32.8 billion to charitable organizations in 1978, according to the AAFRC. These estimates are based on reports from key charitable groups, which traditionally receive the greatest share of their support from individuals. At the present, the only specific detailed information on individual giving comes from Internal Revenue Service analysis of the tax returns of individuals who itemize deductions. The trend, however, is for individuals not to itemize because of the more generous standard deductions introduced over the past few years. Returns with itemized deductions peaked in 1970 at 35.4 million and have since declined to 22.9 million with more declines anticipated. This trend has aroused some concern among organizations that depend on donations from individuals. As a result, legislation is being proposed to allow taxpayers to itemize charitable



* These totals are derived from itemized tax returns with deductions for contributions as calculated by the IRS

▲ Based on 1972-73 Consumer Expenditure Survey by the Bureau of Labor Statistics

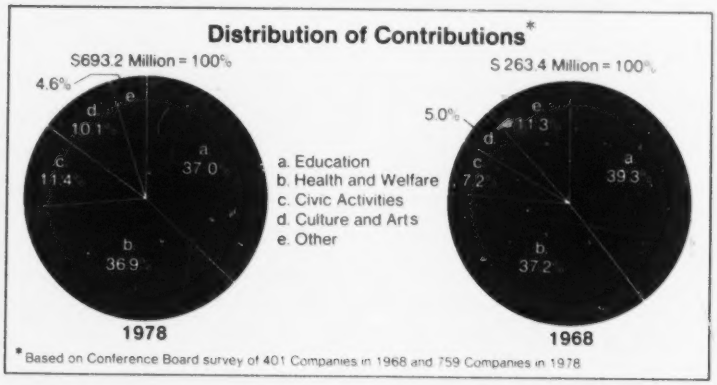


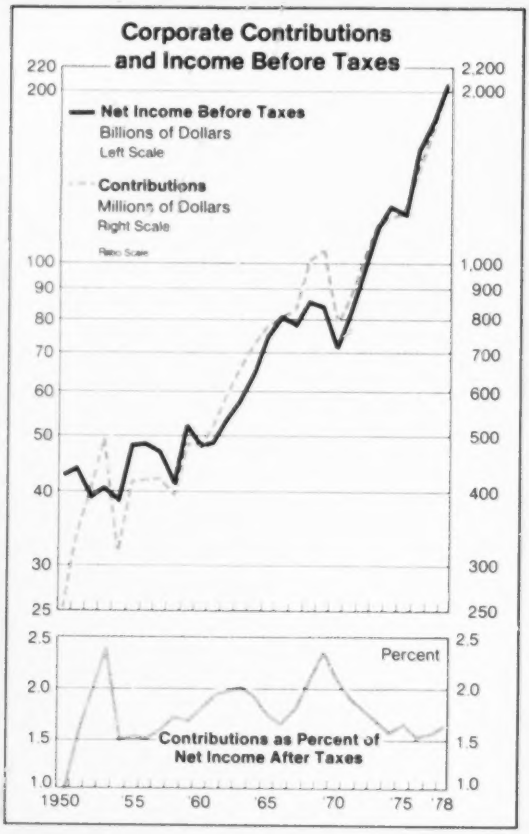


Corporations

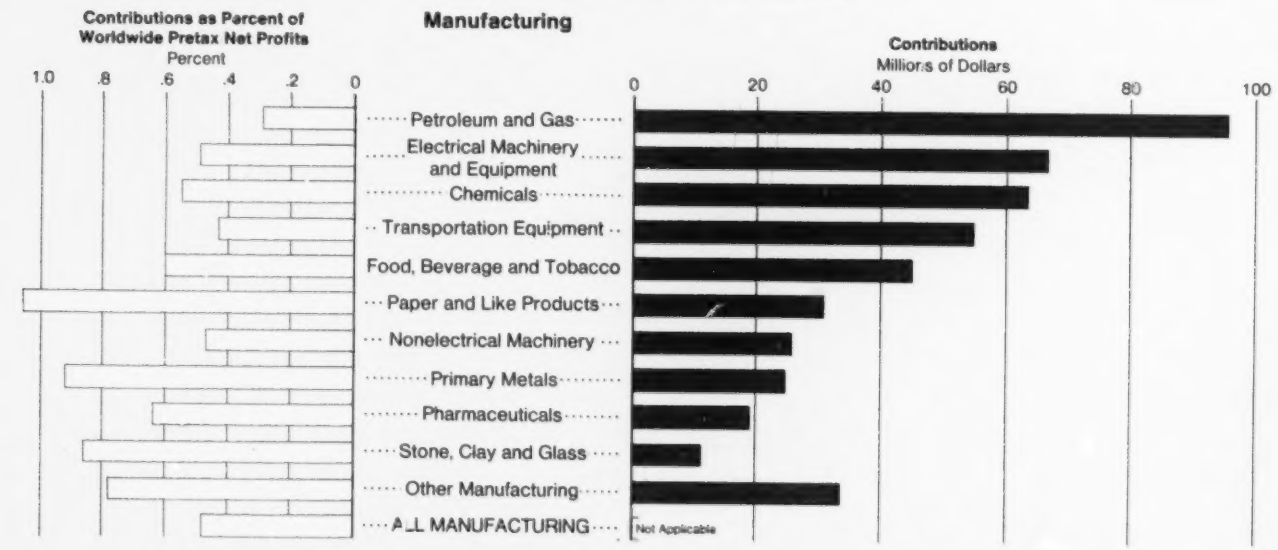
contributions in addition to taking the standard deduction.

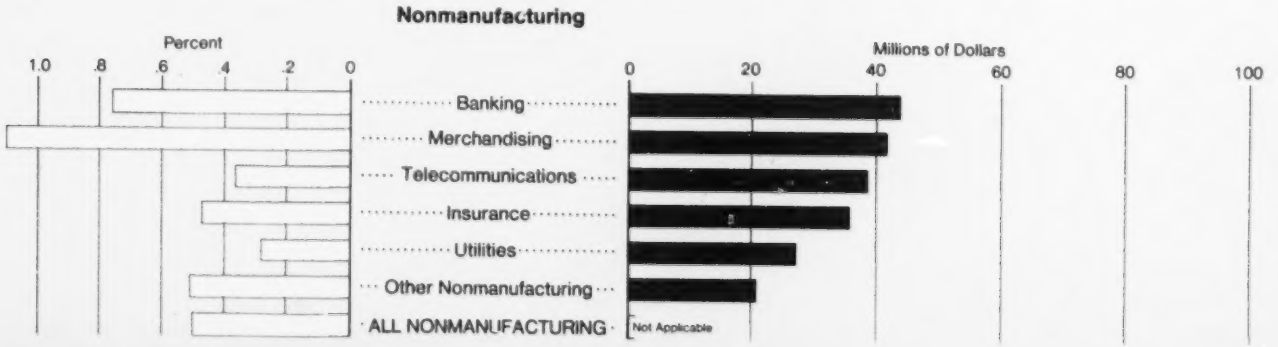
Much of the information on page 2 comes from IRS tabulations. Although the number of itemized returns has been shrinking, the average charitable contribution deduction has been rising and, indeed, more than doubled between 1970 and 1977. As already noted, religious organizations take the largest share of individual giving. According to data from a 1972-1973 survey, religion accounts for 85.6% of low-income persons' giving, but for only 59.3% of giving at higher income levels. This is because better-off people also support education, culture and hospitals. However, a substantial part





Corporate Contributions by Industry:

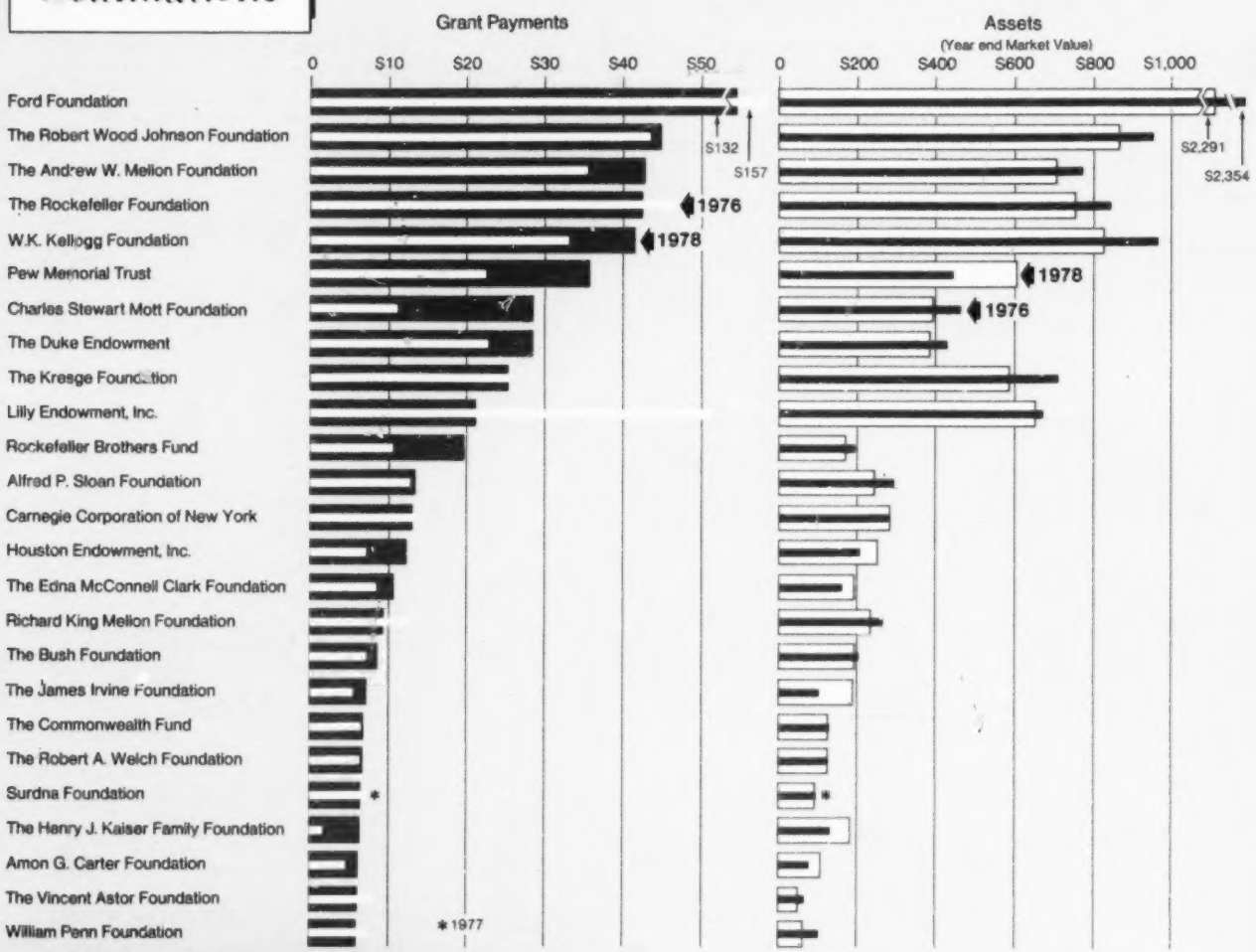


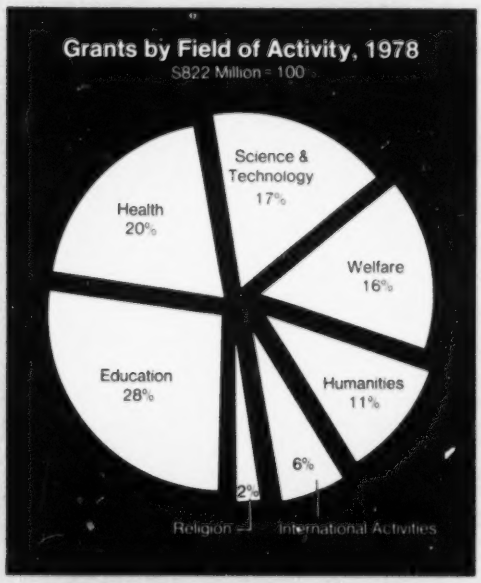


Foundations

Grant Payments and Assets of Major Private Foundations

Millions of Dollars





of church donation goes for the running of church-sponsored schools—and thus to education.

Corporations (including company foundations) contributed $2.0 billion to a variety of causes in 1978. Corporate giving grew faster than that of any other sector—giving rose by about 18% annually during the past three years. Federal tax law permits corporations to deduct up to 5% of their taxable income for contributions; the average contribution is about 1 percent. In addition, many corporations also underwrite a number of other undertakings—such as public TV programs and museum exhibits—but take the cost as a business expense rather than a charitable contribution. The Conference Board annual survey of corporate contributions shows that contributions of 759 major companies totaled $693 million, and the average contribution as percent of worldwide taxable net income was about ½ of 1 percent. The Conference Board survey covers 35% of all corporate giving.

Foundations made grants of $2.16 billion and bequests totaled $2.6 billion in 1978.

Eva Culen

Sources: U.S. Departments of Treasury, Labor, and Commerce; American Association of Fund-Raising Counsel Inc.; The Foundation Center; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director

Prices for Quantities of this chart will be supplied on request to Information Service.

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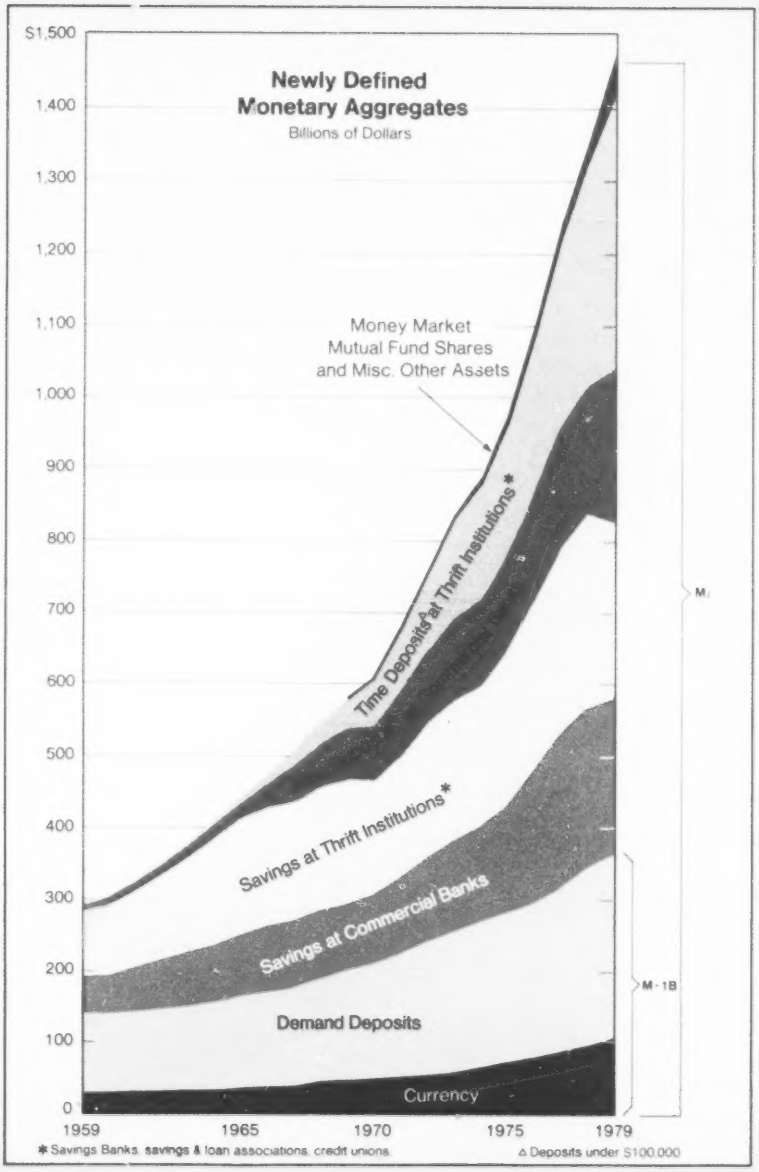
THE CONFERENCE BOARD

Money Supply and Interest Rates

Economic Road Maps
Nos. 1874 - 1875
March, 1980

Money is the medium of exchange used in the conduct of all transactions in the economy. Money is what is spent, saved, borrowed and lent. Hence, the behavior of the stock of money is intricately related to the behavior of the economy, especially over the relative effects on the real volume of activity and on the price level. These issues—which are critical to the formulation of economic policy—have been complicated in recent years by changes in methods of transactions and the character of financial assets. The Federal Reserve's new definitions of the money supply are an attempt to clarify what is and what is not money.



Money is the commodity people use to trade one thing for another. Money, then, is the stock of funds available to be spent to command goods or services. That means there is a relationship between the stock of money and the total dollar volume of spending for goods and services. In general, the faster one grows, the faster the other will grow. But a continuing problem for analysts and policymakers is the question of what ought to be included in the definition of money.

For many years, it seemed fairly simple that money meant currency plus immediately usable funds (demand deposits such as checking account balances). But both businesses and consumers have grown more sophisticated about handling financial assets and have generally trimmed the proportion kept in the form of traditionally defined "money." Specifically, money not immediately needed has been less and less likely to be left in immediately usable form, and more likely to be converted into a form where the money earns interest. The issue has been further clouded by changes in banking regulations, which have allowed depositors to make withdrawals, in some instances, from these balances similar to the way withdrawals are made from demand deposits.

In the last few years, some banks have begun to offer interest-bearing accounts—Negotiable Order of Withdrawal (NOW) or Automatic Transfer Service (ATS) accounts—from which depositors make withdrawals by means of quasi-checks. Additionally, credit union depositors have been offered check-like

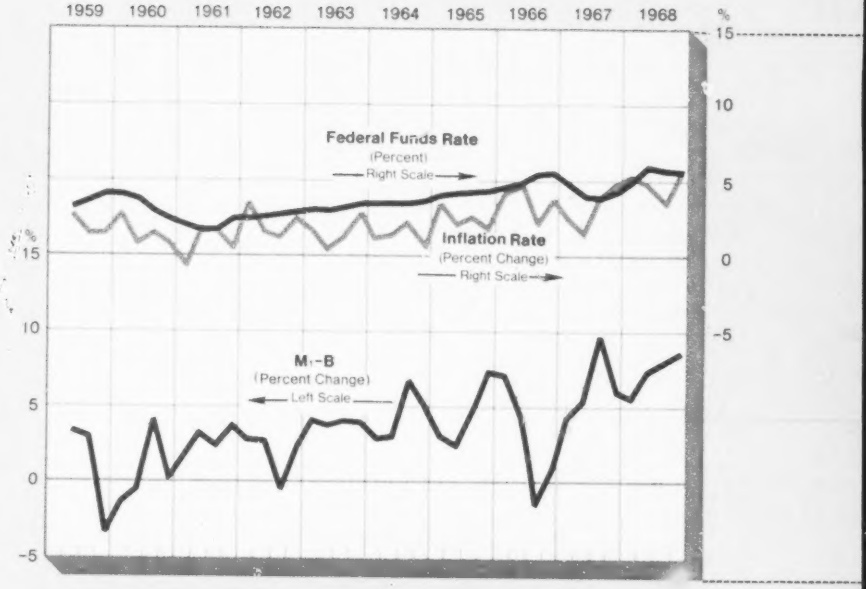
withdrawal facilities. Money market mutual funds have likewise begun to offer their customers similar services. Definitions of money supply had to be altered to recognize these changes in forms of financial assets. On a more abstract level, the task of defining what is and what is not money was directed away from the type of institution to the type of asset. In essence, assets can be typed in terms of their liquidity, that is, how readily they can be exchanged for commodities. Currency and demand deposits have always been included in the narrowest definition of money (M1) because of their high liquidity. The Federal Reserve's newly defined M1-B includes old M1 plus NOW, ATS, and credit union accounts, since they offer a like degree of liquidity.

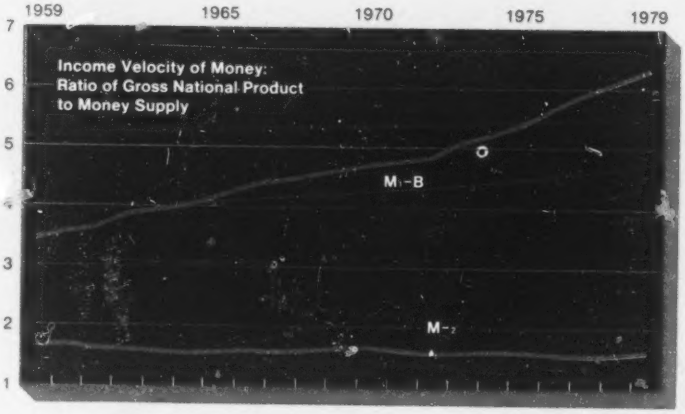
The new M2 measure includes M1-B plus a broad range of somewhat less liquid assets. These include savings and time deposits. The latter consist of funds in certificates of deposit (CD's), which entail depositing a sum (which nowadays can be as little as $100 or as much as $100,000), for a specified period (as short as 30 days or as long as several years) at an agreed upon rate of interest, and no withdrawal can be made for that duration without financial penalty.

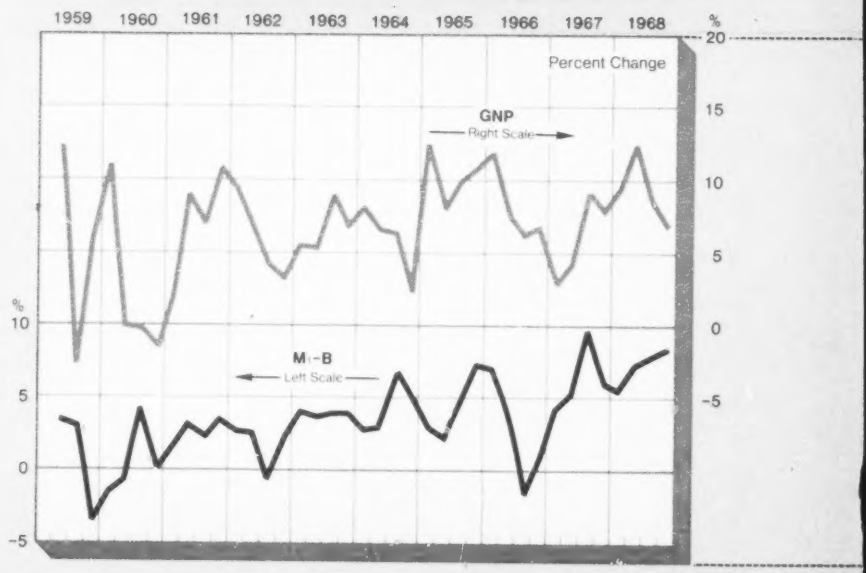
Still more broadly defined measures of money supply include other, less liquid, financial assets—such as commercial papers, bankers' acceptances, short-term Treasury securities, and large (over $100,000) denomination CD's.

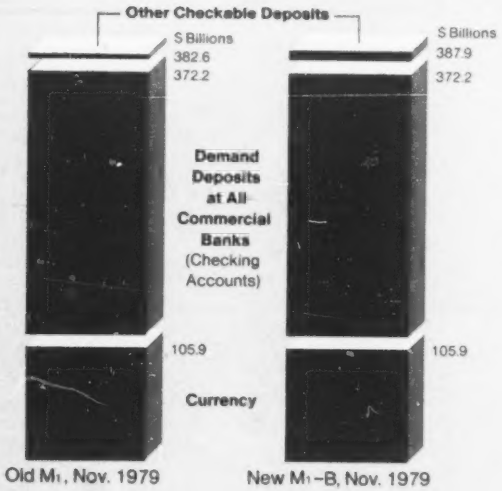
The change in the level of money supply is related to the change in the general level of

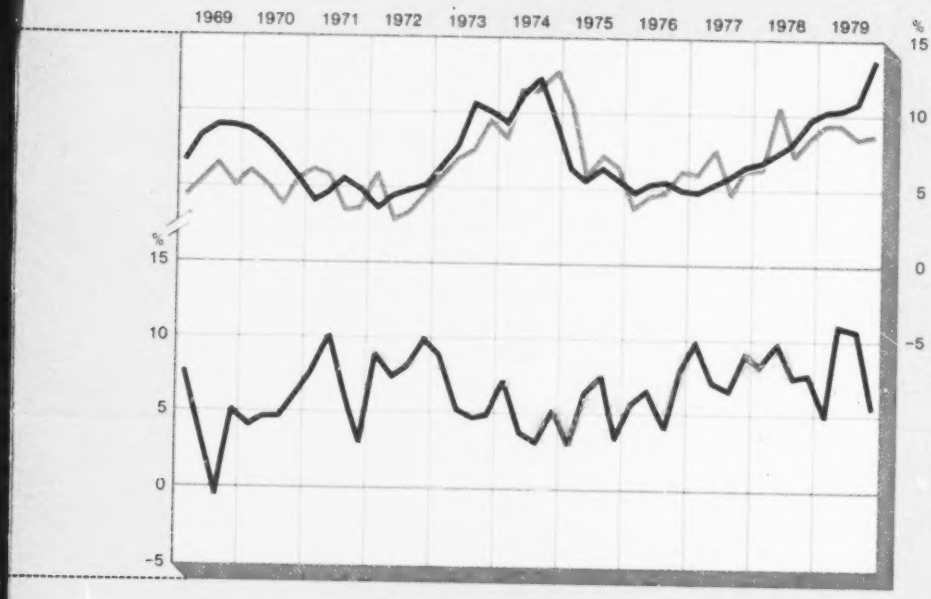
Money Supply and







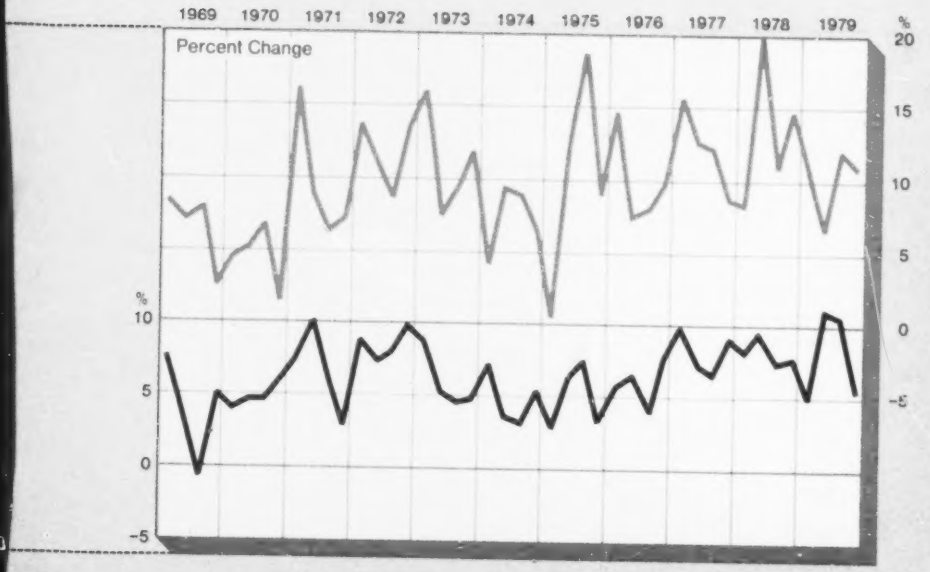


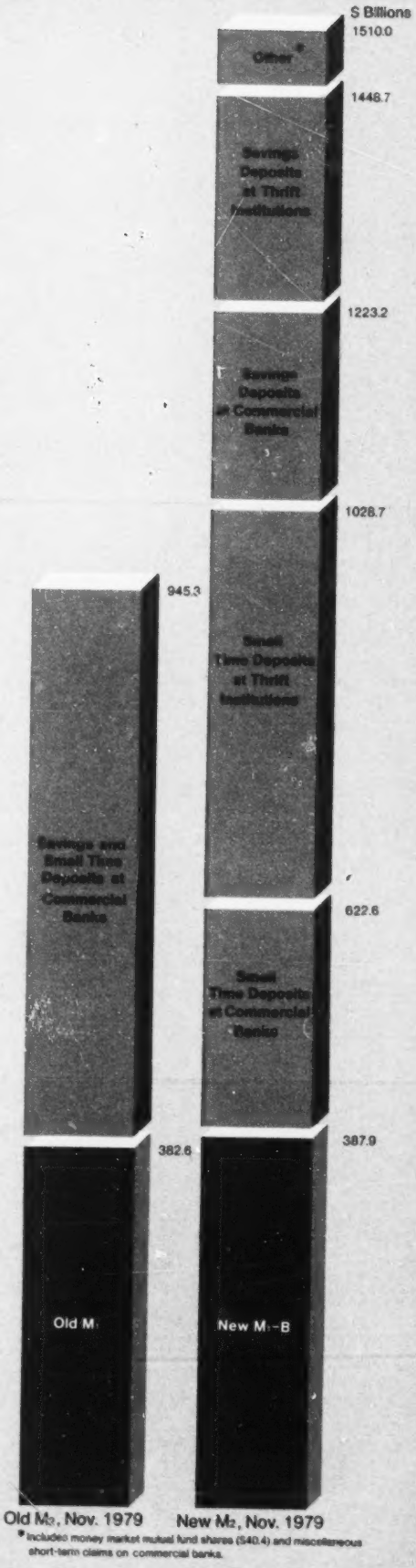


prices. The change in inflation is directly tied to changes in interest rates. In recent years, as the rate of inflation has spiraled upward, interest rates have soared to record levels. Further, the structure of interest rates is highly synchronized. That is, the difference between, say, the prime lending rate of major banks and the Federal Funds rate—the rate at which banks borrow from other banks—does not vary greatly. Hence, when the Federal Reserve allows the Federal Funds rate to rise, banks will hike their prime interest rate in proportion to that change. However, rates on loans that extend over a number of years (bond yields) tend to fluctuate more slowly and to a lesser extent than do rates on loans that extend over a short period of time.

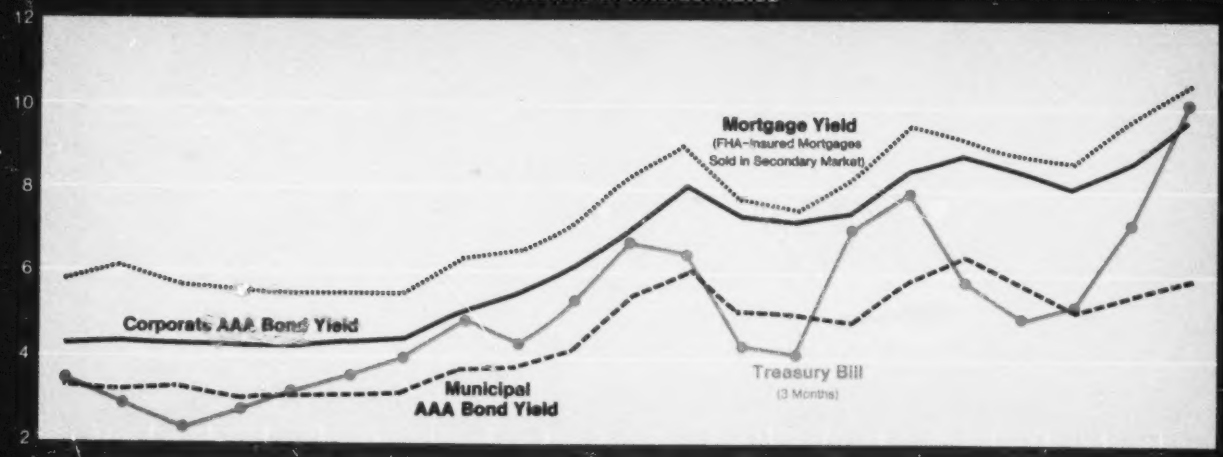
Ken Goldstein

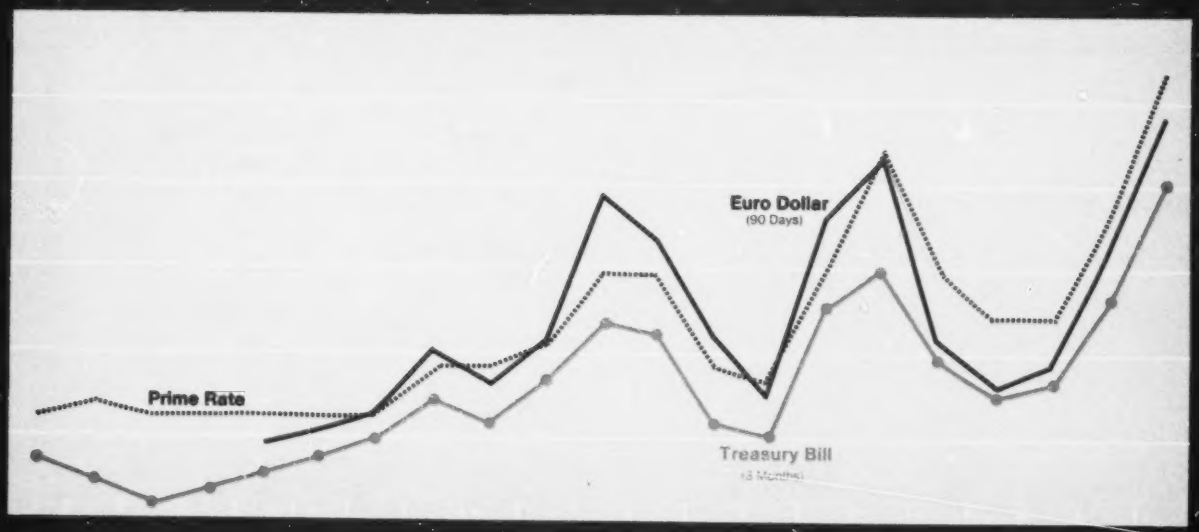
Sources: Federal Reserve Board; Bureau of Economic Analysis; The Conference Board.

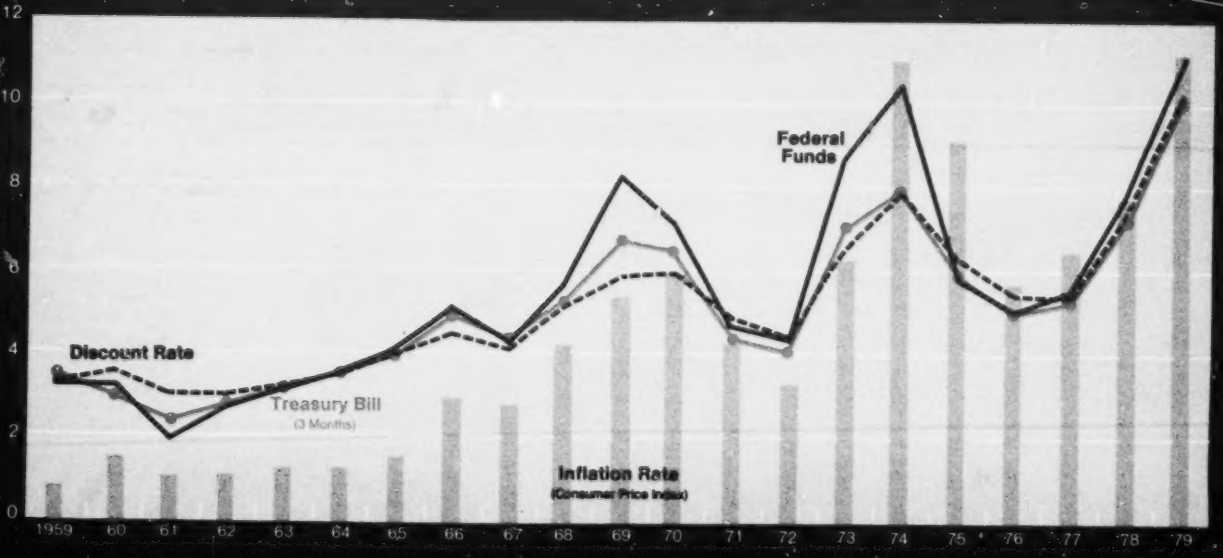




Structure of Interest Rates







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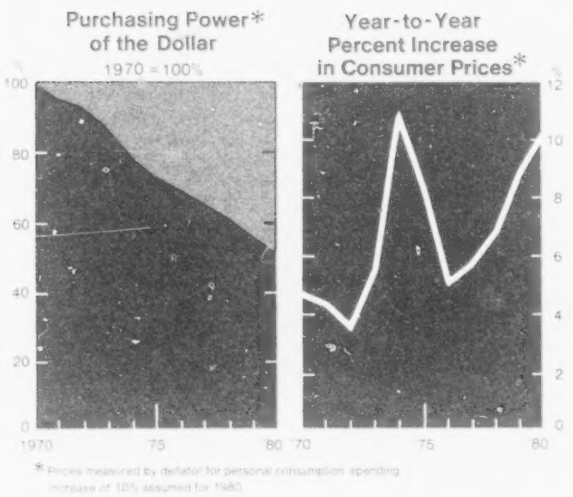
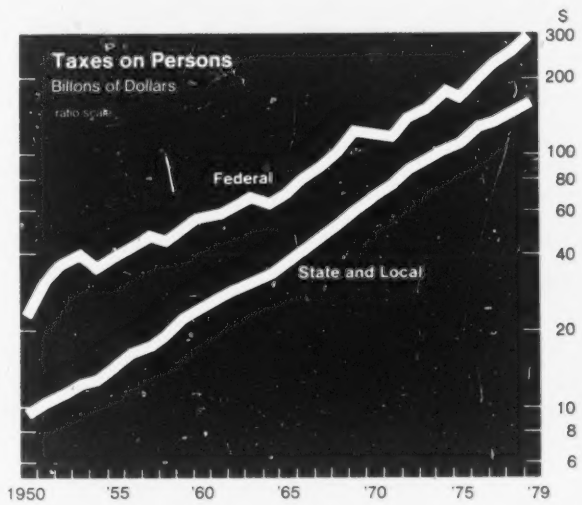
The Two-Way Squeeze, 1980

Economic Road Maps
Nos. 1876-1877

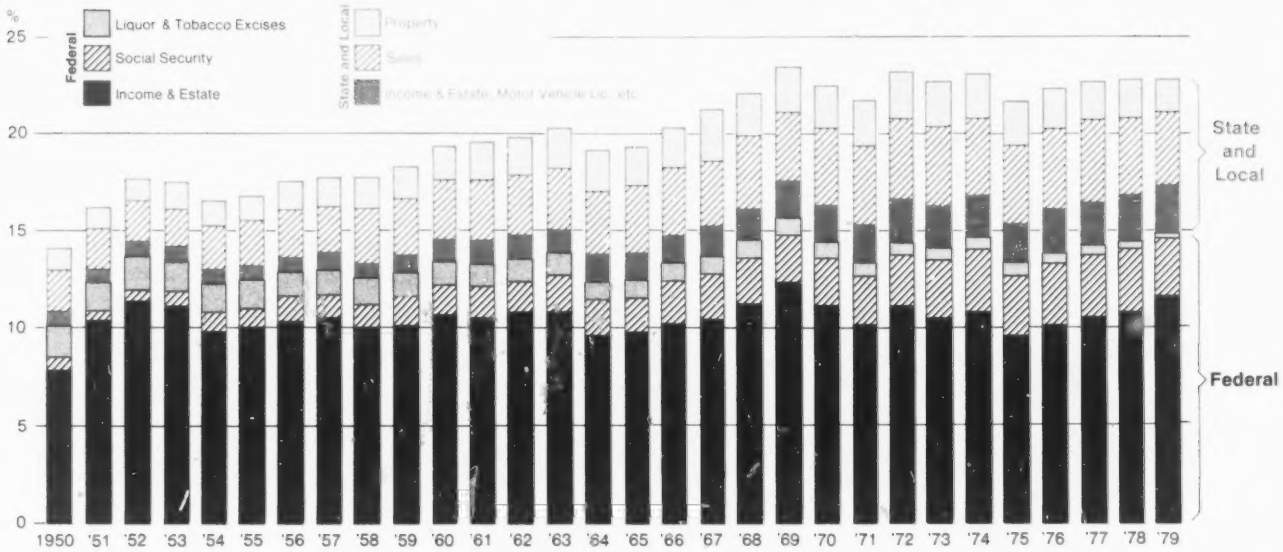
April, 1980

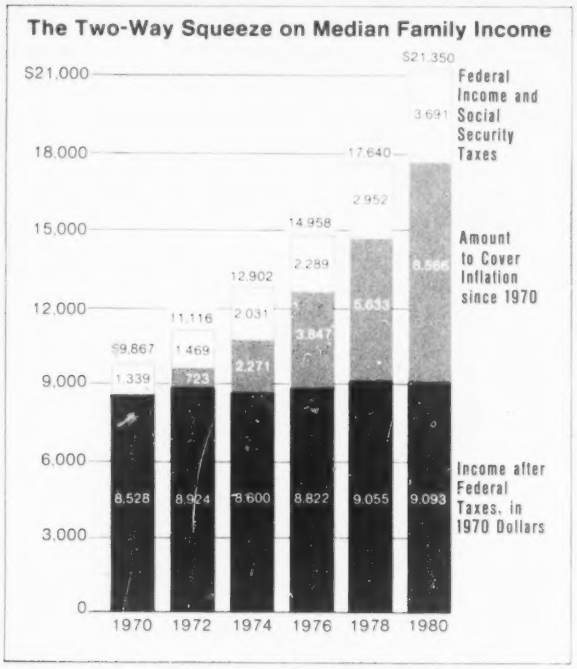
In 1970, a pretax income of $10,000 represented just about the average for American families. In 1980, in order to have the same real purchasing power after taxes that a $10,000 income provided in 1970, a family needs a pretax income somewhat over $20,000. This required doubling of income in 10 years largely reflects inflation, which has boosted the consumer price level by more than 90% since 1970. The rise in effective tax rates has been much less important for the average-income family, according to Conference Board calculations. At higher incomes, however, the effective federal tax rate has risen appreciably since 1970. Thus a high-income family's 1980 earnings must be more than double the 1970 level if it is to maintain its 1970 level of real after-tax purchasing power. These calculations take account only of federal income and Social Security taxes, because state and local income taxes vary widely.

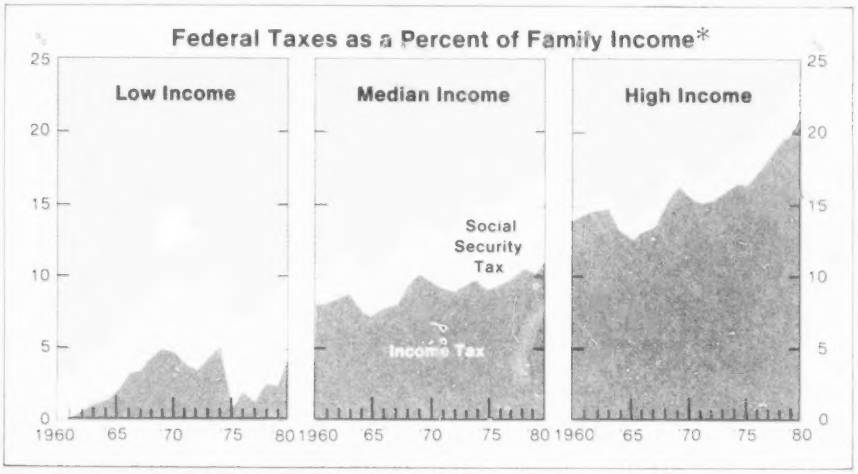


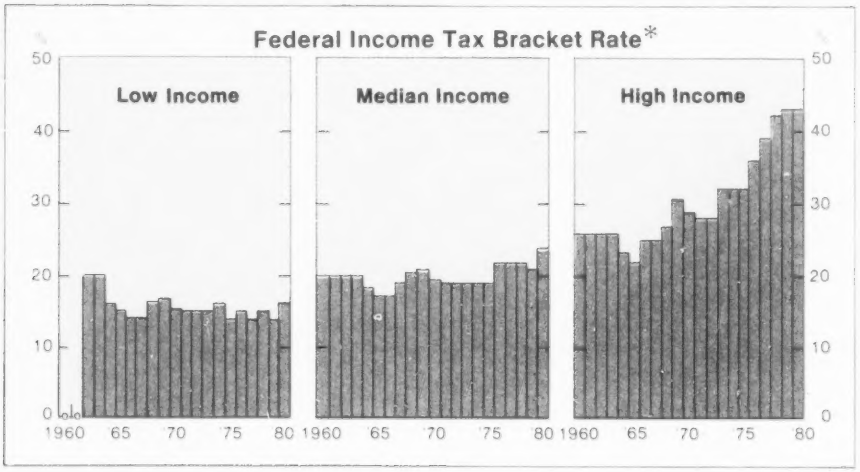


Taxes on Persons as Percent of Total Personal Income, 1950-1979









*Family income each year at the 20th, 50th, and 95th percentiles of the family income distribution. Estimated 1980 income levels are $10,550, $21,350, and $54,300, respectively. Calculations assume 4-person family with one earner.

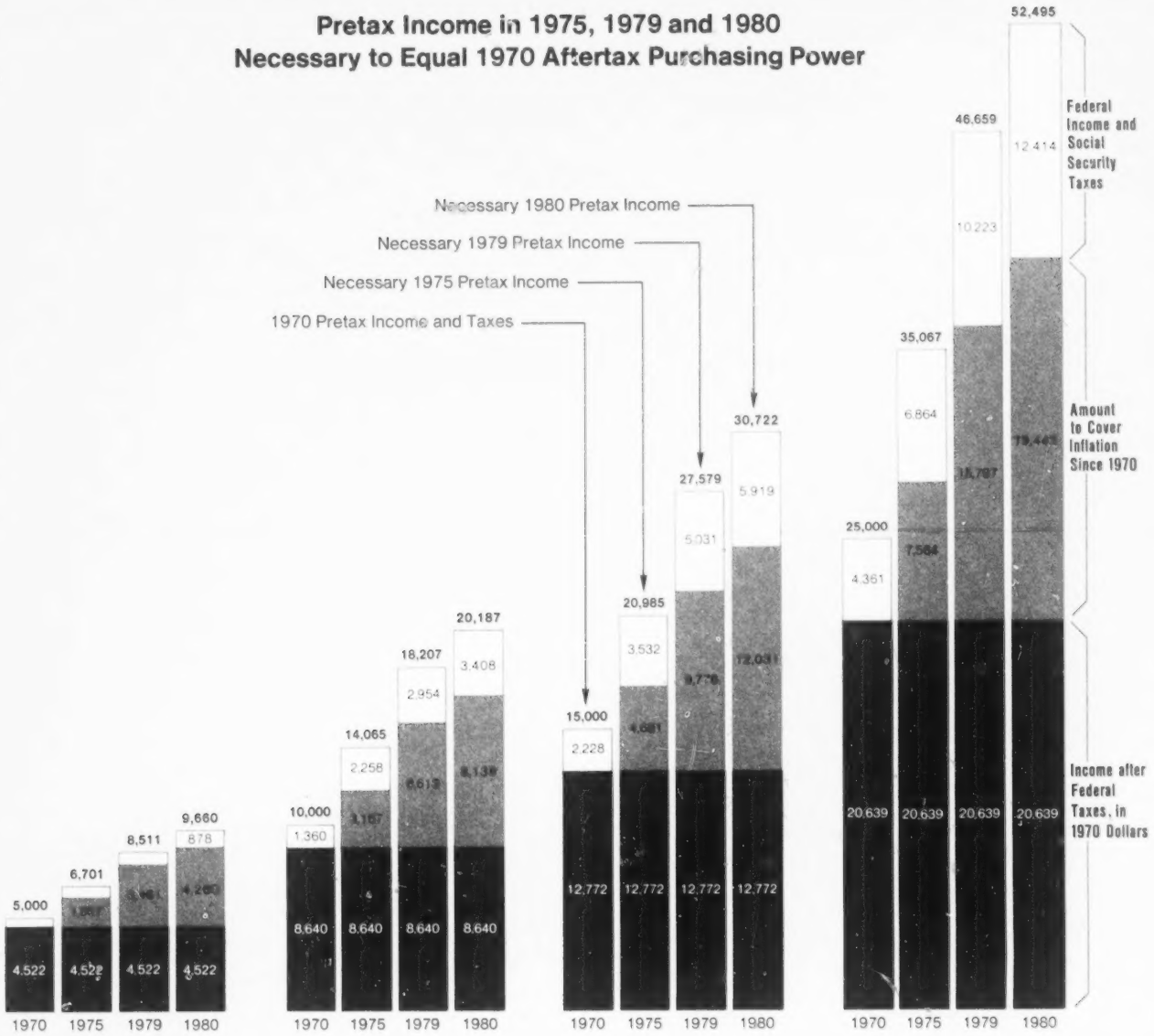
The Conference Board calculations detailed on page 3 show how much pretax income hypothetical families need this year (and needed in 1979 and 1975) in order to match the real after-tax purchasing power that they had in 1970. The 1970 pretax incomes of $5,000, $10,000, $15,000 and $25,000 roughly correspond to the 20th, 50th, 80th and 95th percentiles of the family income distribution in 1970. A 1970 income of $50,000 is also used. The family with $10,000 in 1970 needs $20,187 this year in order to have the same after-tax position it had 10 years ago. The family that had $25,000 in 1970 needs $52,495 this year, and the family with $5,000 then needs $9,660 now. (The assumptions, which include a projected 1980 rise of 10% in the price deflator for personal consumption, are outlined at the bottom of page 3.)

The Social Security tax rate went from 4.8% of the first $7,800 of earnings in 1970 to 6.13% of the first $25,900 this year, boosting the maximum tax from $374 to $1,588. By contrast, federal income tax rates were cut in the 1970's. There was a general rate cut effective last year, and a steady liberalization of the standard deduction during the decade. The "maximum tax on earned income," introduced in 1971, benefits high earners by making the top bracket rate on earnings 50% (whereas the top bracket for "unearned" income is 70%). And the "earned income credit," begun in 1975, benefits low earners by trimming their taxes and in some cases providing a "negative tax" payment.

Turning from hypothetical families to the average experience of actual families, the chart at the top of this page shows the tax and inflation take from the median family income. The estimated 1980 income of $21,350 is up 116% from 1970, while real purchasing power after taxes is up only 7% (using the same assumptions outlined on page 3). The middle chart shows that the percentage tax take has risen only modestly at the median income but sharply at high incomes. The problem of "bracket creep," where inflation-generated income growth moves taxpayers into higher tax brackets, has mainly affected the top 25%-30% of the income distribution. The bottom chart shows tax bracket rates: stable for the low-income family, edging up recently for the median income, but up 15 points in 10 years for the high-income family.

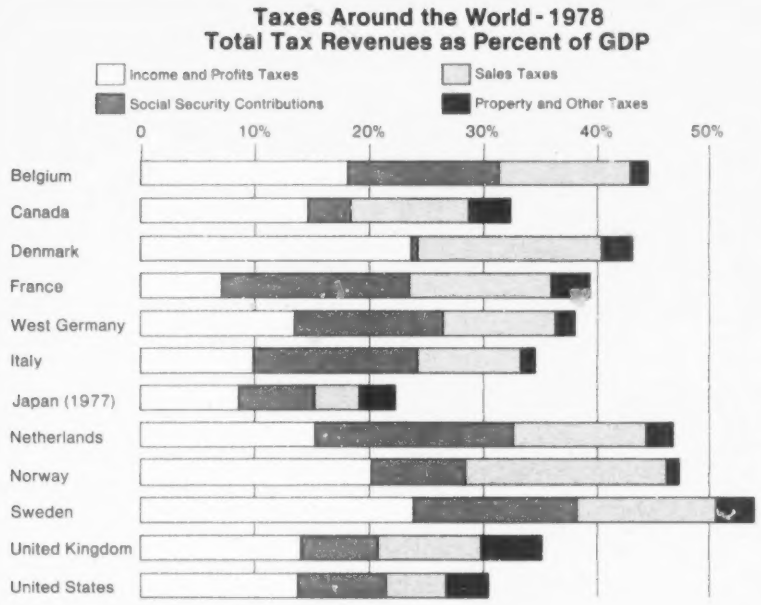
Federal, state and local taxes took 23% of U.S. personal income last year (page 1). Data

Pretax Income in 1975, 1979 and 1980
Necessary to Equal 1970 Aftertax Purchasing Power



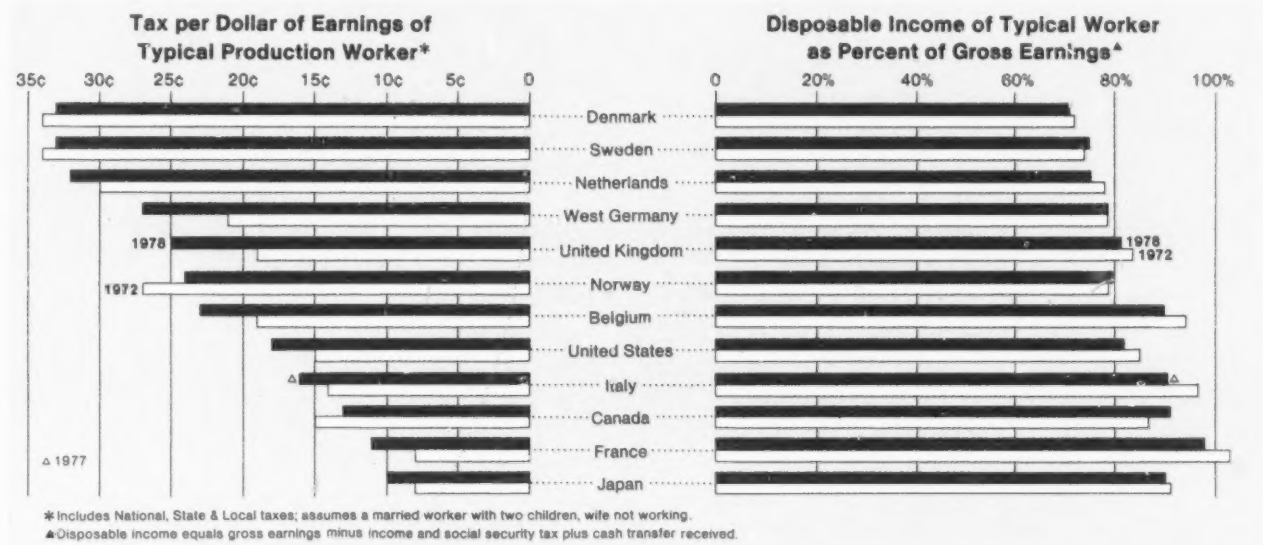
	$5,000	$10,000	$15,000	$25,000	$ 50,000
1970 PRETAX INCOME					
Less: Federal income tax	238	996	1,854	3,987	11,982
Less: Social security tax	240	374	374	374	374
Equals: Income after federal taxes	4,522	8,640	12,772	20,639	37,644
1975 NECESSARY PRETAX INCOME	6,701	14,065	20,985	35,067	71,377
Less: Federal income tax	130	1,067	2,707	6,039	19,111
Less: Social security tax	392	691	825	825	825
Less: Amount to cover inflation since 1970	1,657	3,167	4,681	7,564	13,797
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1979 NECESSARY PRETAX INCOME	8,511	18,207	27,579	46,659	95,398
Less: Federal income tax	6	1,858	3,627	8,819	27,537
Less: Social security tax	522	1,116	1,404	1,404	1,404
Less: Amount to cover inflation since 1970	3,461	6,613	9,776	15,797	28,813
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1980 NECESSARY PRETAX INCOME	9,660	20,187	30,722	52,495	106,785
Less: Federal income tax	286	2,171	4,331	10,826	32,092
Less: Social security tax	592	1,237	1,588	1,588	1,588
Less: Amount to cover inflation since 1970	4,260	8,139	12,031	19,442	35,461
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644

Federal income and social security taxes are computed for a married couple, only one of whom works, with two children. No allowance is made for any other taxes. Calculations use the tax laws in effect each year. Deductible items are assumed to equal 17% of pretax income in 1970, 20% in other years. For calculating maximum tax and earned income credit, all income is assumed to be earned, personal service income. Inflation is calculated from the deflator for personal consumption spending, with a 10% rise assumed from 1979 to 1980.

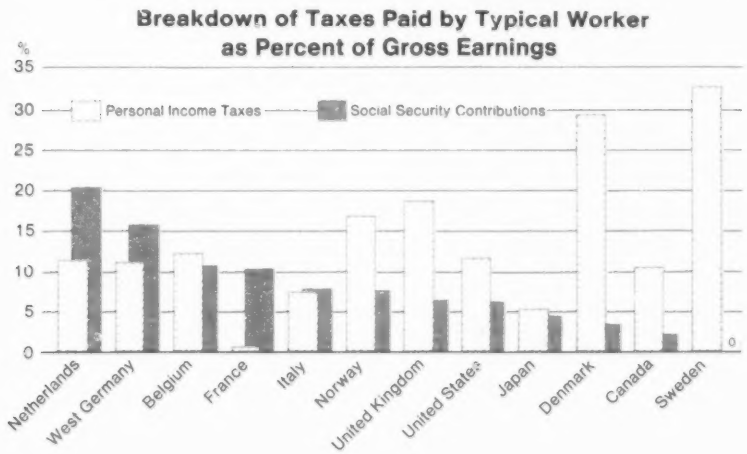


from the OECD help to put U.S. taxes into international perspective. The U.S. runs well behind the other major industrial nations in the ratio of total taxes (business and personal) to national output. The 1978 U.S. figure was 30%, compared with an OECD average of 36% (chart at left). The ratio has been rising over the past decade in all countries, but at different rates: steeply in Scandinavia and Belgium, modestly in France, Japan, Britain and the U.S. However, the preliminary 1978 data suggest a halt, or at least interruption, to the uptrend in many countries. The tax mix varies widely, with sales and social insurance taxes generally more important in Europe.

The OECD has calculated the tax bite on an "average manufacturing worker" in each country, counting local taxes in a representative city in addition to national



*Includes National, State & Local taxes; assumes a married worker with two children, wife not working.
▲Disposable income equals gross earnings minus income and social security tax plus cash transfer received.



taxes. The middle chart panel shows taxes as well as disposable after-tax income, relative to earnings. Disposable income includes transfers such as family allowances, and in countries where these are sizable (Belgium, France, Italy) the result is a relatively high ratio of disposable income to earnings.

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Sources: Bureau of the Census, Bureau of Economic Analysis, Internal Revenue Service, OECD, The Conference Board.

ECONOMIC ROAD MAPS

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Prices for Quantities of this chart will be supplied on request to Information Service.

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